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RUEHHM/AMCONSUL HO CHI MINH 1847
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RUEHZU/ASIAN PACIFIC ECONOMIC COOPERATION

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SUBJECT: SHIPPERS SAY VIETNAM TO OUTGROW PORT CAPACITY BY 2007

Ref: A) Hanoi 774, B) Ho Chi Minh 411

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¶1. (SBU) Summary: The Ambassador met with a group of large foreign shippers/buyers on September 7 to discuss their predictions of shortages in port capacity shortages, which threaten future export growth in Vietnam. They were visiting Hanoi to urge Government of Vietnam (GVN) officials to maximize existing port capacity and step up efforts to develop future capacity. They predict that, at current growth rates of 25 percent a year, Vietnam's exports will exceed port capacity by 2007. End summary.

¶2. (SBU) On September 7, the Ambassador met with a group of large buyers/shippers, who collectively account for about USD 5 billion in annual exports from Vietnam and the employment of 500,000 Vietnamese. (Note: These companies generally do not directly own factories in Vietnam, but source product from tightly supervised contractors in the country. Their demand drives infrastructure development, manufacturing, employment and investment decisions. End note.)

¶3. (SBU) Representatives from Nike, Adidas, Gap, IKEA, MAST Industries Far East Limited (maker of the Limited clothing brands), and APL Logistics (the shipping firm) came to Hanoi to urge the GVN to step up efforts to address a looming shortfall in Vietnamese port capacity. John Isbell, Nike logistics director, showed the Ambassador a chart outlining the group's estimates of Vietnam's increases in exports and port capacity. The chart illustrated the shippers' case that, at current 20-25 percent annual growth in Vietnam trade volume, by 2007 southern port capacity limits would begin to cause significant shipping delays and by 2014, even including current planned expansion, volumes would greatly overwhelm port capacity.

¶4. (SBU) The recent approval of SSA Marine's Cai Mep port project in southern Vietnam will alleviate, but not eliminate, the port congestion problem, the shippers said. According to Isbell, even assuming no delays, Cai Mep is only due to be completed in 2010 and, given Vietnam's track record on infrastructure development, some delays should be expected. Seventy percent of Vietnam's exports leave from southern Vietnam, he pointed out.

¶5. (SBU) Ambassador Marine asked if the group had shared these predictions and their concerns with the GVN. Isbell said that in 2005 the group met with then-Prime Minister Phan Van Khai in Seattle

and raised these issues. During their current trip, he continued, they will meet with Deputy Prime Minister Pham Gia Khiem, the Vice Minister of Transport, the Director General of Vinamarine, a Minister of Planning and Investment and senior officials in the Ministry of Foreign Affairs. They planned to emphasize the importance of sticking to project timelines and the need to maximize the use of current facilities in order to minimize supply chain disruptions. The Ambassador warned that the decision-making process in Vietnam is slow. He noted that the GVN's decisions on infrastructure projects are often made with both political and commercial considerations.

Shifting Production Away From Vietnam

¶16. (SBU) Nike is already experiencing delays of between 12 and 24 hours during peak weeks at ports and is afraid that this could increase exponentially, said Amanda Tucker, the chief representative of Nike. As a result, Nike, which plans production volumes three years in advance, has decided to allocate less production to Vietnam and divert some production to China and Indonesia. IKEA will also move some production to China, said Jeff Ross, Global Strategic Purchase Manager for IKEA's Ocean Transport division.

¶17. (SBU) Nike's Tucker added that Vietnam offered many advantages, including an abundant labor supply, a good work ethic and low labor costs, despite a recent mandatory minimum wage increase by the government (Ref A). On the other hand, recent labor unrest, high turnover, and increasing wages have "unsettled" some manufacturers. Isbell said Vietnamese officials seem to believe that delays in developing infrastructure might only delay, but not endanger, investment in Vietnam. He stressed, however, that that opportunities to obtain Nike investment only occurred rarely as factories require development molding shops and extensive networks of local suppliers. This complementary investment cannot be picked up and moved, so lost investment opportunities might be lost

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forever. Tucker observed that many countries experience an initial investment surge, only to stagnate later.

Background on Recently Approved Cai Mep Port

¶18. (SBU) Prime Minister Nguyen Tan Dung approved in September the establishment of a joint venture between Saigon Port and SSA Marine to develop and operate the a new deep water Cai Mep port and container terminal. Located in the Ba Ria-Vung Tau Province, the manufacturers group described the \$160 million facility as a "crown jewel" of southern Vietnam ports. Press reports state Ho Chi Min City's container traffic is currently 2.2 million twenty-foot equivalent units (TEUs) per year and growing at an average rate of 20-25 percent per year. The new facility will have a total annual capacity of 1.35 million TEUs and will be completed in 2010. The construction effort is part of a plan by the GVN to shift container traffic to deep-water ports from more congested and smaller ports closer to HCMC (Ref B). The project is the first joint venture approved by the GVN for a container terminal in southern Vietnam.

Comment

¶19. (SBU) Several of the shippers noted that they do not expect their efforts to have an impact on Vietnamese officials, who seem complacent due to the recent flood of foreign investor interest. Though Vietnam's WTO entry may increase the number of firms who investigate possible opportunities here, the shortcomings identified by of these influential buyers will be evident to others as well.

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